



NATIONAL ENDOWMENT FOR THE ARTS

**PERFORMANCE & ACCOUNTABILITY REPORT**  
**FISCAL YEAR 2004**

Submitted to the Congress,  
the Office of Management and Budget,  
the Department of the Treasury, and  
the Government Accountability Office  
November 15, 2004

**National Endowment for the Arts**

[www.arts.gov](http://www.arts.gov)

**Performance & Accountability Report - Fiscal Year 2004**

**November 15, 2004**

**TABLE OF CONTENTS**

I.	Management's Discussion and Analysis	
	A Message from the Chairman .....	1
	Overview of PAR .....	5
	Mission and Organizational Structure .....	5
	President's Management Agenda: Arts Endowment Status ....	6
	Performance Goal Highlights: Trends and Actions .....	9
	Analysis of Financial Statements .....	11
	Systems, Controls, and Legal Compliance .....	12
	Integrity Act Tables .....	13
	Future Effects of Existing Events and Conditions .....	13
	Organization Chart .....	15
	Summary of Adjusted Goals and Outcomes .....	17
II.	Performance Section	
	Performance and Impact .....	19
	Agency-Wide Accomplishments .....	19
	Learning in the Arts .....	22
	National Initiatives .....	22
	Research and Analysis .....	26
	Performance Reports and Plans .....	29
III.	Financial Section	
	A Message from the Director of Finance .....	49
	Financial Statements and Related Auditor's Report .....	51
	Management's Comments on Auditor's Report .....	77
	IG's Summary of Serious Management Challenges .....	81
	Chairman's Response to Inspector General's Summary .....	87

BLANK PAGE



## ***Management's Discussion and Analysis:***

### ***A Message from the Chairman***

I am pleased to present this *Fiscal Year 2004 Performance and Accountability Report*, a first for the National Endowment for the Arts. This report summarizes the Agency's performance and accomplishments – programmatically, financially, and operationally – during the past year.

#### **Mission and Organizational Overview**

The National Endowment for the Arts is a public agency dedicated to supporting excellence in the arts – both new and established – bringing the arts to all Americans, and providing leadership in arts education. Established by Congress as an independent agency of the Federal government, the Arts Endowment supports art of indisputable merit and broad public reach to all 50 states, the District of Columbia, and special jurisdictions, reaching rural areas, inner cities, and military bases. We are committed to providing the American people with access to the best of their artistic legacy.

The National Endowment for the Arts is committed to serving the American people through three clear and unambiguous goals:

- *Access to Artistic Excellence* – by supporting projects that foster and preserve excellence in the arts and provide access to the arts for all Americans.
- *Learning in the Arts* – by supporting projects that advance learning in the arts for children and youth.
- *Partnerships for the Arts* – by developing and maintaining partnerships with State, regional and other Federal agencies, and the private sector that advance access to artistic excellence and learning in the arts.

The above goals reflect a continuing effort over the past several years to consolidate our programmatic goals – strengthening the link between our goals, performance plans, budget and funding categories, and to clarify and simplify our funding categories and review processes for grant applicants. In fact, as a result of these efforts our goals, performance plans, budget, and funding categories directly and specifically mirror one another (see Statement of Net Cost). We carry out our activities primarily with funds appropriated by Congress to the Arts Endowment, but also with donated funds from the private sector and transfers from other Federal agencies. We pursue our goals primarily through grantmaking, but increasingly also through our leadership, convening, research, communication and dissemination, and partnership activities. All of these are discussed elsewhere in this report.

### **Performance Goals, Objectives, and Results**

This Performance and Accountability Report demonstrates that the National Endowment for the Arts continues to build upon the objectives, strategies, and programs of the Bush Administration and the successes begun in previous years. These include:

- Serving as a national voice and leader for excellence in American culture.
- Serving the American people by creating model programs of indisputable artistic merit and broad national reach.
- Ensuring complete geographic coverage of our programs.
- Developing and promoting effective models for arts education.
- Providing focused leadership and careful management to improve Agency performance and productivity.

Over the last few years, the National Endowment for the Arts has demonstrated its commitment to excellence. Previous criticism has been replaced by respect and greater appreciation, and desire for programming. A vast array of Agency programs and initiatives are providing Americans with opportunities to experience the best of the arts. These include:

- Program Initiatives such as the expanded *NEA Jazz Masters* program, the new *Arts Journalism Institutes* and *Poetry Recitation* programs, *Operation Homecoming: Writing the Wartime Experience*, as well as the establishment of an ongoing Shakespeare program that builds upon the success of the Arts Endowment's *Shakespeare in American Communities* initiative.
- Outreach such as the *Challenge America: Reaching Every Community* program, grant workshops, an on-line newsletter, our redesigned Web site and the establishment of a Development Office that has successfully formed new partnerships with the public and private sectors to support the arts – such as The Sallie Mae Fund for *Shakespeare in American Communities* and The Boeing Company for *Operation Homecoming*.
- Management improvements such as establishment of a consolidated Office of Government Affairs, the signing of an inter-agency agreement with the Federal Aviation Administration to provide the Agency with its first Joint Financial Management Improvement Program-compliant system (JFMIP), the reorganization of the Agency's Information Technology Management Office, the implementation of findings from the Agency's business process review, and the introduction of new services made possible by increased application of technology.

### **Data Reliability**

The financial and performance data contained in this report is, to the best of my knowledge, complete and reliable; with the exception of the caveats discussed in Part II of this report, there are no inadequacies to report. I am also pleased to state that the

National Endowment for the Arts is in substantial compliance with the requirements of the Federal Managers' Financial Integrity Act of 1982 (see details below), with one exception. As noted previously, our financial system – which is in the process of being replaced in response to a finding during our FY 2003 audit – did not yet fully conform with government-wide standards in FY 2004. That deficiency is close to being resolved.

Dana Gioia  
Chairman

November 15, 2004

BLANK PAGE

## ***Management's Discussion and Analysis: Overview of Performance and Accountability Report***

### **Mission and Organizational Structure**

This Performance and Accountability Report – our first – demonstrates that the National Endowment for the Arts continues to build upon the objectives, strategies, and programs of the Bush Administration and the successes begun in previous years. These include:

- Serving as a national voice and leader for excellence in American culture.
- Serving the American people by creating model programs of indisputable artistic merit and broad national reach.
- Ensuring complete geographic coverage of our programs.
- Developing and promoting effective models for arts education.
- Providing focused leadership and careful management to improve Agency performance and productivity.

The National Endowment for the Arts is an independent Federal agency that is lead by a Chairman – appointed by the President and confirmed by the U.S. Senate – and advised by the National Council on the Arts. Fourteen private citizens are appointed by the President and confirmed by the Senate; six ex officio members are members of Congress appointed by Senate and House leadership.

The Arts Endowment is structured around several major divisions – programmatic and administrative – that are headed by three Deputy Chairmen and a Chief Information Officer – all of whom report to a Senior Deputy Chairman, the Agency's Chief Operating Officer. The Senior Deputy Chairman reports to the Chairman, who also has a personal support staff and a number of office directors reporting directly to him. The major program Division, Grants and Awards, organized primarily around artistic disciplines, is primarily responsible for handling and review of grant applications. An organizational chart can be found at the end of this section. In FY 2004, the Agency operated with a staffing level of approximately 156 full time equivalents.

The National Endowment for the Arts is the Federal agency dedicated to supporting excellence in the arts – both new and established – bringing the arts to all Americans, and providing leadership in arts education. Established by Congress as an independent agency of the Federal government in 1965, the Arts Endowment supports art of indisputable merit in all 50 states, the District of Columbia, and special jurisdictions, reaching rural areas, inner cities, and military bases. We are committed to providing the American people with access to the best of their artistic legacy.



### **President's Management Agenda: Arts Endowment Status**

The first strategy identified by the Agency's new Chairman, Dana Gioia, in 2003 was to *provide focused leadership and careful management to improve Agency performance and productivity.*

We believe that the Arts Endowment has been quite successful in this effort. The following information provides selected examples of how this success contributes to achievement of the President's Management Agenda (PMA).

#### **1. Human Capital**

- Established a Human Capital (HC) Plan and related strategies consistent with the Agency's Strategic Plan.
- Human Capital management issues are routinely addressed in monthly meetings of Agency senior managers and HC staff.
- Build our budgets and programs in recognition of our HC resources.
- Manage our HC programs consistent with applicable internal controls and merit-based principles – evidenced by the 2000-2001 Human Resource Management oversight review conducted by the Office of Personnel Management (OPM).
- Sustain a high-performing workforce as evidenced by our capacity to manage increasing application/grant workload without commensurate increases in resources. Training is critical to this effort.
- Instituted annual leadership training as a key element of succession planning<sup>1</sup> and as a vehicle to improving and enhancing performance.
- Reorganized offices and reassigned staff to maximize performance as evidenced by:
  - o Establishing an Office of Government Affairs to provide focused and consistent management of the Agency's liaison with other executive agencies and Congress in support of domestic and international activities.
  - o Establishing a Development Office to secure donated funds to support, in particular, large-scale national initiatives.
  - o Establishing a National Initiatives Office to manage such programs.

---

<sup>1</sup> By the end of FY 2006, assuming no substantial change in the current composition of staff, the average years of Federal service for Agency staff will be 15, with approximately 19% of Agency staff eligible for optional retirement. With this in mind, the Agency has set succession planning as a high priority. Two major goals have been identified to prepare the Agency for the potential retirement or resignation of key career staff. First, to offer competitive developmental training opportunities to staff at the GS-13 and above levels, with a desired outcome of being able to use existing staff to temporarily or permanently fill the knowledge and skill voids created when critical leadership positions are vacated. Second, to offer staff training with an emphasis on supervisory knowledge and skills.

- o Reorganizing our Information Technology Management (ITM) Division to substantially improve the skills set available to lead the Agency in technology and productivity improvement. In association with this effort, dedicating substantial training funds for ITM staff.
  - o Using a five-tier performance rating system to assist supervisors in assessing and distinguishing performance.
  - o Using contract assistance to provide skill sets not available with current staff.
  - o Establishing an Innovation Awards program to challenge Agency staff to identify opportunities to improve productivity Agency-wide.
- Following a reduction-in-force (RIF) in 1995, necessitated by a 40 percent reduction in funding, we reassessed the positions essential to accomplishing our mission while recognizing the necessary balance between professional and clerical skills. We now conduct such assessments on an ongoing basis to ensure that our staffing level and skill mix is sufficient to operate effectively and achieve our mission.

## 2. E-Gov

- Continue our active participation on the interagency work groups, subgroups, and specially formed teams, assisting with the government-wide streamlining and Grants.gov efforts. The Agency employs a team effort to work on Grants.gov, encompassing information technology, programmatic, grants, guidelines, communications, and policy staff with *more than six percent of our staff participating in these efforts while continuing to carry out their other responsibilities.*
- Work to ensure compliance with other applicable Administration initiatives such as developing the necessary interfaces to Grants.gov and E-Travel.
- Participated – one of the first grant-making agencies to do so – in the pilot of the Web-to-system interface of GSA’s FedBizOpps.
- Serve as an interim member of the executive board that oversees the Grants.gov initiative.
- Entered into a cross-servicing interagency agreement with the FAA to provide the Arts Endowment with a JFMIP-compliant financial management system, pursuant to a business case and findings of our financial statement audit. The costs of this system are below initial estimates and within budgeted allocations.
- Developed business case – consistent with the requirements of OMB Circular A-11 and Exhibit 53 (which has been modified for small agencies) – to employ a contemporary Grants Management System to replace our outdated system.

- Initiated a number of process improvements through the use of technology that will improve internal productivity as well as customer service for our applicants and grantees. Efficiencies have already emerged from this effort, resulting in improvements in data quality, reduction in paperwork, and ability to review and share materials in an electronic environment. Two examples include:
  - o Piloted electronic acceptance of Literature Fellowship final reports. This option was made available to our Literature Fellows in May 2004. As many of these individuals move and travel extensively, the ability to create their report and submit it electronically is beneficial.
  - o Implemented “Grant-at-a-Glance,” a new tool that allows grantees to get real-time information – including status of payment requests – on their grants.
- Continued implementation of a pilot E-Apply application that allows State Arts Agencies and Regional Arts Organizations to submit grant applications via the Internet through the Arts Endowment Web site.
- Improved the Agency’s Web site as an information and processing tool for the general public, applicants and grantees, including the placement of all Agency application guidelines and grant requirements on our Web site.
- Established an Agency Intranet to improve internal operations, including the placement on this site of Agency forms that can be produced and shared electronically.

### 3. Competitive Sourcing

- Conduct our staffing inventory and subsequently submit in compliance with the FAIR Act.
- Use contracting as an important management tool, particularly in the areas of information and facilities management – pursuant to competition.
- Conducted a competition with Federal agencies to provide the Arts Endowment with a JFMIP-compliant financial management system.

### 4. Financial Management

- Entered into cross-servicing interagency agreement with the FAA to provide Agency with a JFMIP-compliant finance system. Intended to be operational in FY 2005, this system will improve reliability and timeliness of financial information.
- Received unqualified opinion on first-ever financial statements audit conducted in 2003 pursuant to the Accountability of Tax Dollars Act of 2002.

## 5. Budget/Performance Integration

- Fully integrated budget and planning, ensuring that Agency goals, programs and budget categories are aligned with and mirror one another. For example, Agency general goals and annual performance goals are one and the same.
- Prepared FY 2006 budget request as a performance budget, with performance data integrated throughout.
- Full budget cost is assigned to mission accounts and activities. As a small Federal agency, we have assigned S&E costs to the program budget as a whole.
- Developed program outcomes and indicators to assess achievements in relation to plans. Indicators are generally statistical in nature. We also are using indicators to determine areas of adjustment or emphasis in our budget request and are exploring the possibility of developing qualitative program evaluations.

### **Performance Goal Highlights: Trends and Actions**

The National Endowment for the Arts is committed to serving the American people through three clear and unambiguous goals:

- *Access to Artistic Excellence* – by supporting projects that foster and preserve excellence in the arts and provide access to the arts for all Americans.
- *Learning in the Arts* – by supporting projects that advance learning in the arts for children and youth.
- *Partnerships for the Arts* – by developing and maintaining partnerships with State, regional and other Federal agencies, and the private sector that advance access to artistic excellence and learning in the arts.

For each of the above performance goals, we have identified several outcomes that we intend to achieve, and we have established performance indicators for each outcome – all of which tie directly back to our mission statement (see Table 1 at the end of this section). Since FY 2004 has just ended, we cannot yet report on final accomplishments related to our grantmaking during that year. As we regularly explain in our annual performance reports, actual performance data from each fiscal year is not available until final reports on funded projects have been received. We have established a threshold of 90 percent of such reports as a level that allows us to make reliable assessments of actual performance. This threshold is usually reached within approximately two years after the end of the fiscal year in which the awards were made. These final reports include statistical

data tied to our performance indicators that establish the degree to which we are accomplishing our objectives.

In each year's performance plan, we provide estimates of what will be accomplished as a result of our funding. For example, with FY 2004 funding we estimate that 25-30 million individuals will directly benefit from projects whose primary purpose is to make art widely available to the public; and 70,000-80,000 artists will participate in projects whose primary purpose is to create art. The grantees' final reports provide the information that allows us to report what we have actually accomplished across the country with our programmatic activities. We have found the actual results to be quite consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data.

Because we are committed to broadening our reach to make more arts opportunities available to more people in more communities, in FY 2003 we initiated grant workshops in underserved areas around the country, and we have expanded our support and convening of activities intended to broaden opportunities for people with disabilities to participate in the arts. As a result of these targeted outreach efforts – and other internal changes discussed below – we are becoming increasingly more effective in our mission to make the arts widely available throughout the country. Since 2001, application numbers have increased 8% and the number of grants awarded has gone up by nearly 3%. It should be noted, however, that the awards we make still satisfy less than 50% of the amount requested (38% in 2001; 42% in 2004).

The increasing numbers of applications suggest that the Arts Endowment's programs are addressing real needs, the performance data we receive (which are reported in our annual performance reports) indicate that our goals for these programs are being met, and the critiques we receive from the panelists who convene to review grant applications and discuss program policies confirm that our programs are effective.

A significant factor in our projected and actual performance is that, beyond establishing eligibility criteria, we have no control over how many applicants we will have each year, or to what category they will apply. Additionally, it is important to note that we are primarily a grantmaking organization and not a direct service provider. Our grantmaking enables other organizations to provide necessary services to the American people; our performance measures are intended to provide an indication of the effectiveness of this indirect method of providing service. Given these factors, our performance projections over the past several years have proved to be consistent with actual performance as reported by our grantees, providing us with confidence that our programs are effective. We can also confidently assert the efficiency of our programs as we continue to do more with only modest increases in our resources.

### **Analysis of Financial Statements**

Underlying the Agency's programmatic achievements is our commitment to organizational excellence and sound financial management. We have again received an unqualified opinion on our financial statements from our independent auditor; this is quite an accomplishment, since this is only the second year we've been required to conduct an audit. This is particularly significant, given that we have labored for a number of years under an out-of-date financial management information system, which we have recently been able to replace through a cross-servicing agreement with the Federal Aviation Administration. All of our FY 2005 transactions will be recorded in this new system. Our auditor identified our old system last year as a material weakness; we committed then to overcoming the weakness and we will have done so in less than 12 months from the time the weakness was first identified.

The Arts Endowment's principal financial statements have been prepared to report the financial position and results of operations of the Agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Arts Endowment in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The Arts Endowment receives an annual appropriation of "no-year" funds from Congress, and has been granted authority to receive donations and invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding, and the same guidelines are used to account for both appropriated and non-appropriated funds. The Arts Endowment's property, plant, and equipment are recorded at cost and are depreciated according to an asset capitalization policy implemented as a result of last year's audit.

A key financial trend affecting our operations is the constantly increasing demand from our constituents – evidenced primarily through the upward trend in both numbers of applications and dollars requested. Recent budget increases have helped us respond to this growing demand, but a significant gap remains between what is requested of us and what we are able to provide – since 2001, consistently less than 50% of the total dollars requested of us overall.

In response to our FY 2003 audit, last year we made a significant change in our financial statements; we are now recording estimated accruals for grant liabilities. On the basis of a policy and process developed with guidance from the auditor, we included approximately \$25 million in "Accrued Liabilities Due to Grantees" on our FY 2003 Balance Sheet. We have continued to carefully track this

component of our financial operations and have included a similar amount on our FY 2004 Balance Sheet.

### **Systems, Controls, and Legal Compliance**

The National Endowment for the Arts is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and modify existing controls – and establish new ones as appropriate – to ensure that we are able to provide reasonable assurance that we are accountable for our resources. We also recognize the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations. As mentioned above, in FY 2004 we quickly responded to – and resolved – the material weakness presented by our financial management system that was identified during our FY 2003 financial statements audit.

Pursuant to the Federal Manager's Financial Integrity Act of 1982 (Integrity Act), the Arts Endowment's major offices, administrative and programmatic, were asked to conduct an internal review of their respective activities to identify possible deficiencies in management controls. This important annual process enables us to provide reasonable assurance that the Arts Endowment is in compliance with the Integrity Act.

Mindful of the Administration's continuing emphasis on management accountability for effective and efficient performance, as well as the ever-present need to direct limited resources to their best use, Arts Endowment managers exercise close scrutiny over all operations. We draw upon internal and external expertise in reviewing and refining our operational policies and procedures, and work very closely with the Agency's Office of Inspector General in these endeavors. The Arts Endowment recognizes that maintaining the integrity of its systems is essential to good governance.

Based on the review process described above, **the Arts Endowment assures that its internal management controls are adequate and effective.** At the same time, we acknowledge that the Agency's outmoded financial management system represented a material weakness, as first noted by our independent auditor (Leon Snead and Company, P.C.) during our FY 2003 financial statements audit. While we made tremendous progress during the past year in transitioning to a fully JFMIP-compliant system – through a cross-servicing agreement with the Federal Aviation Administration's Enterprise Services Center – the transition is scheduled to be completed just after the end of FY 2004, so the material weakness continued through FY 2004. We expect the new system to be fully operational by the end of November 2004, thus eliminating the noted material weakness; all our FY 2005 transactions will be recorded in the new system.

The Arts Endowment's Agency-wide internal management review identified no other material weaknesses or inadequacies in FY 2004. As the following tables indicate, the Agency has experienced no other material weaknesses since 2001.

### **Integrity Act Section 2 - Internal Controls**

<b>Material Weaknesses</b>			
Reporting Year	Number reported for first time that year	Number corrected that year	Number pending correction that year
Prior Years	8	7	1
2002	0	1	0
2003	1	0	1
2004	<u>0</u>	<u>0</u>	<u>1</u>
<b>Total</b>	<b>9</b>	<b>8</b>	<b>3</b>

### **Integrity Act Section 4 - Financial Management Systems**

<b>Material Non-Conformances</b>			
Reporting Year	Number reported for first time that year	Number corrected that year	Number pending correction that year
Prior Years	1	1	0
2002	0	0	0
2003	0	0	0
2004	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>1</b>	<b>1</b>	<b>0</b>

### **Future Effects of Existing Events and Conditions**

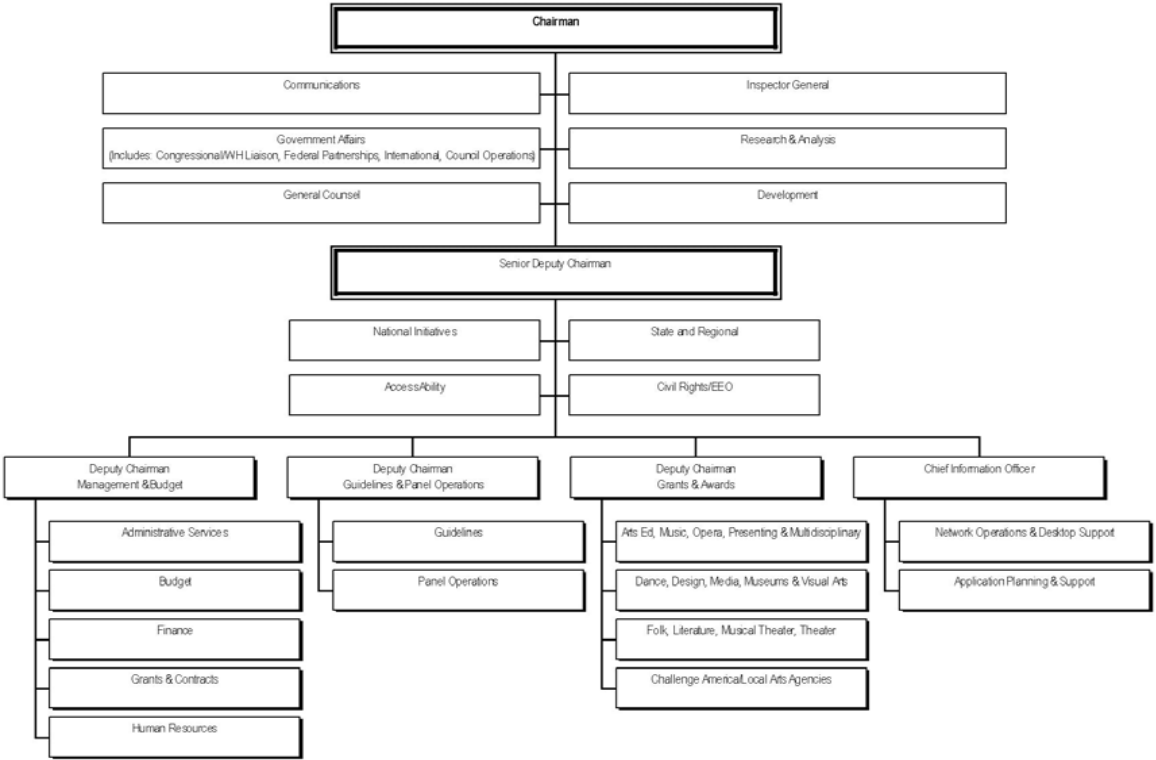
Despite our resolution of the financial management system weakness, Agency capacity continues to be limited by our reliance on an outdated grants management system. In the face of increasing demands on the Agency from multiple directions, and with financial limits on how much we can increase our staffing level, we need to bring our grants management system up to the same level as our new financial management system. We are committed to pursuing this beginning in FY 2005, pending availability of funds.



BLANK PAGE

# NATIONAL ENDOWMENT FOR THE ARTS ORGANIZATION CHART

Approved: September 2004



Prepared by: OHR

BLANK PAGE

***NEA Strategic Plan FY 2003-2008***  
**Summary of Adjusted Programmatic Goals and Outcomes**

<u><b>Goals</b></u>		
<b>Access to Artistic Excellence</b>	<b>Learning in the Arts</b>	<b>Partnerships for the Arts</b>
To foster and preserve excellence in the arts and provide access to the arts for all Americans.	To advance learning in the arts.	To develop and maintain partnerships that advance the mission of the National Endowment for the Arts.
<u><b>Outcomes *</b></u>		
1. Artists and arts organizations have opportunities to create, interpret, present, and perform artistic work.	1. Children and youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	1. State arts agencies and regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.
2. Audiences throughout the Nation have opportunities to experience a wide range of art forms and activities.	2. Teachers, artists, and others demonstrate knowledge and skills necessary to engage children and youth in arts learning, consistent with national, state, or local arts education standards.	2. State arts agencies, regional arts organizations, and the Arts Endowment work together to achieve common or complementary goals.
3. The arts contribute to the strengthening of communities.	3. National, State, and local entities demonstrate a commitment to arts learning for children and youth, consistent with national, state, or local arts education standards.	3. Other public and private sector organizations support arts activities that advance the mission of the Arts Endowment.
4. Artistic works and cultural traditions are preserved.		
5. Organizations enhance their ability to realize their artistic and public service goals.		
<p>* The outcomes refer to the intended results of Agency-funded grant projects and activities with arts organizations, arts service organizations, educational institutions, units of government, individuals, and other public and private sector organizations involved in arts activities.</p>		

BLANK PAGE

## ***Performance and Impact***

The Performance and Impact section of our PAR contains information that conveys the impact of Agency programs, projects and initiatives, including past, present and expected performance.

This section is in five parts:

- I. Agency-Wide Accomplishments
  - Funding Catalyst
  - Geographic Reach
  - Artistic Reach
- II. Learning in the Arts
- III. National Initiatives
  - Shakespeare in American Communities
  - Operation Homecoming
  - Poetry Recitation
- IV. Research and Analysis
- V. Performance Reports and Plans

### I. Agency-Wide Accomplishments

#### A. Funding Catalyst

While some Federal agencies require grant recipients to match Federal dollars, few if any require the rigorous, one-to-one match the Arts Endowment requires of its grant recipients. This practice ensures that Federal support serves as a catalyst and, most important, that Arts Endowment funded projects have broad local financial support. Information provided by our grant recipients indicates that the annual match of our Federal support is approximately six times the Federal investment. *A match of roughly \$600 million is projected annually as a result of the Arts Endowment's support.*

## B. Geographic Reach – Ensuring Complete National Coverage

As a catalyst, as a convener, and as a national advocate for the arts, the Arts Endowment helps focus and coordinate the enormous creative energies and resources of our State, local, voluntary and private institutions, and of our citizens. During FY 2004,

### 1. General National Coverage

We made more than 2,100 awards.	We awarded more than 260 grants that will reach beyond the boundaries of the State in which the grant recipient resides.
Individuals benefiting – exclusive of television and radio broadcast audiences – should number 45 to 50 million.	Approximately three million children and youth are expected to benefit from our Learning in the Arts efforts alone.
The number of communities reached throughout the Nation resulting solely from our discretionary grants is expected to reach 3,900 – many resulting from the Agency’s touring and outreach projects.	The State Arts Agencies and their Regional Arts Organizations received 40% of the Arts Endowment’s budget, extending the Arts Endowment’s impact by reaching more than 1,500 communities through projects supported by the State Arts Agencies entirely with Federal funds. An additional 1,000 communities are estimated to be reached through projects supported with a combination of Arts Endowment and State funds.

*[The information above excludes impact related to our National Initiatives, which is discussed under National Initiatives below.]*

### 2. Challenge America: Reaching Every Community

The Arts Endowment is committed to ensuring that all Americans have access to the arts through the Agency’s ongoing programs, initiatives, and partnerships. In recognition of our expanded efforts to ensure complete national coverage of our programs, in 2004 we designated our Challenge America program as *Challenge America: Reaching Every Community*. In addition to achieving broad geographic reach through projects in communities large and small, rural and inner-city, one measure of our success has been the *award of a direct grant in every Congressional district*. This represents an ongoing Agency commitment.

### 3. Grants Workshops: Visiting Underserved Communities

In an effort to improve the reach of its programs, the Arts Endowment began conducting grant workshops around the country in collaboration with Members of Congress. With these workshops, the general public, representatives from arts organizations, artists and other interested parties are provided an opportunity to meet with senior Agency representatives and learn first-hand about Agency programs and opportunities. To date, 27 workshops have been conducted in 18 States, with an estimated 2,500 people attending these workshops. States visited have been:

Alabama	Illinois	North Carolina
California	Indiana	Pennsylvania
Connecticut	Kentucky	Rhode Island
Delaware	Montana	Tennessee
Florida	Nevada	Texas
Georgia	New York	Washington

### 4. Small Grants

Relying upon recent, small-grant legislative authority, in FY 2004 we awarded 128 grants of \$10,000 each to improve access to and availability of the arts in communities traditionally underserved by the Arts Endowment. These grants, supported primarily through *Challenge America: Reaching Every Community*, assist with the Agency's effort to award a direct grant in every Congressional district. These awards were focused on particular disciplines, with about half going to Music organizations. Awards have reached the following 34 States:

Alabama	Louisiana	North Carolina
Arizona	Maryland	Ohio
Arkansas	Massachusetts	Oklahoma
California	Michigan	Pennsylvania
Colorado	Minnesota	South Carolina
Connecticut	Mississippi	Tennessee
Florida	Missouri	Texas
Georgia	Nebraska	Virginia
Iowa	Nevada	Washington
Illinois	New Jersey	West Virginia
Indiana	New York	Wisconsin
Kentucky		

### C. Artistic Reach

The breadth of activity supported by the Arts Endowment throughout the Nation is quite extraordinary, including concerts, performances, readings, workshops, exhibitions, festivals, artist residencies, preservation, and artistic training. In



addition, thousands of artists in all disciplines participate in these projects. Selected examples of activity anticipated in association with our FY 2004 Direct Endowment Grant budget include the following:

Support for an estimated 30,000 concerts, readings, and performances.	Support for an estimated 4,000 exhibitions (including visual and media arts).
Assisting as many as 160,000 artists with participation in supported projects.	Support for an estimated 11,000 artist residencies in schools and other locations.

*[The information above excludes impact related to our National Initiatives, which is discussed under National Initiatives below.]*

## II. Learning in the Arts

The National Endowment for the Arts plays a critical role in helping America's children and youth acquire knowledge, skills, and understanding of the arts. The Agency supports projects that provide hands-on learning and engagement of students with skilled artists and quality art in school-based and community-based settings. Our grants also support efforts to recognize best practices and exemplary research that explore the impact of learning in the arts on the cognitive and social development of children and youth, and their future economic opportunities.

The Arts Endowment is convinced that all children, not only those with specific artistic talent, should benefit from an education in the arts, including the opportunity to create, perform, and communicate through varied artistic media. Our efforts reinforce the "No Child Left Behind Act," which includes the arts as a core academic subject area, and which calls on the Nation to provide curriculum frameworks and carefully designed evaluations to assess every child's progress in achieving proficiency in each of the core areas.

- As part of the Agency's strategy to develop and promote effective models for arts education, the Arts Endowment initiated two pilots in 2004: *Summer Schools in the Arts for Children and Youth* and *Summer Institutes for School Leaders*, which we plan to expand, pending availability of funds.

## III. National Initiatives

National initiatives represent a new Agency effort to serve the American people by creating model programs of indisputable artistic merit and broad national reach. Begun in 2003 under the Agency's new leadership, this strategy

embodies the Agency's dual commitment to artistic excellence and public accessibility.

- A. *Shakespeare in American Communities* was the first in a series of landmark programs that demonstrate the unique cultural and educational value the Arts Endowment can bring to America. Since the launch of the national tour in New London, Connecticut in September 2003, *Shakespeare in American Communities* has conducted educational residencies along with its performances. By the end of the current touring program, an estimated 29 companies, employing 300 actors, will have presented 400 performances for nearly 70,000 students in 2,500 classrooms in 1,000 schools; distributed 25,000 teacher toolkits; and entertained 150,000 community audience members. Through the toolkits alone, this program has already reached 3.5 million students in more than 5,000 schools. By partnering with the Department of Defense, *Shakespeare in American Communities* is also reaching military families at 18 military installations around the country (see table below). The September performances and educational residencies reached more than 4,500 children and adults in those military communities.

**Shakespeare in American Communities  
Military Installation Tour Locations as of August 30, 2004  
(by Date)**

<b>Installation</b>	<b>City</b>	<b>State</b>	<b>Dates</b>
Ft. Richardson	Anchorage	Alaska	Mar 04
Edwards Air Force Base	Lancaster	California	June 04
Maxwell Air Force Base	Montgomery	Alabama	Sept 04
Kings Bay Submarine Base	Kings Bay	Georgia	Sept 04
Charleston Naval Weapons Station	Charleston	South Carolina	Sept 04
Camp Lejeune Marine Base	Jacksonville	North Carolina	Sept 04
Quantico Marine Base	Dumfries	Virginia	Sept 04
Selfridge Air National Guard Base	Mt. Clemens	Michigan	Sept 04
Naval Support Activity Mid-South	Millington	Tennessee	Oct 04
Scott Air Force Base	O'Fallon	Illinois	Oct 04
Ft. Riley Army Base	Manhattan	Kansas	Oct 04
Ft. Leavenworth Army Base	Ft. Leavenworth	Kansas	Oct 04
Peterson Air Force Base	Colorado Springs	Colorado	Oct 04
Cannon Air Force Base	Clovis	New Mexico	Oct 04
Holloman Air Force Base	Alamogordo	New Mexico	Oct 04
Pearl Harbor Naval Station	Pearl Harbor	Hawaii	Oct 04
Hickman Air Force Base	Oahu	Hawaii	Oct 04
Schofield Barracks	Oahu	Hawaii	Oct 04

- B. *Operation Homecoming: Writing the Wartime Experience*, a program for U.S. military personnel and their families, is one of the most ambitious programs ever created to document the thoughts and reflections of our troops – in their own words – during the time of their service. Through writing workshops on bases and multimedia materials, this unique literary

program will provide our troops with the opportunity to write about their wartime experiences in a variety of forms – from fiction, poetry, and letters to essay, memoir, and personal journal.

We have assembled an enormously talented team of writers to visit the bases – award-winning poets, best-selling novelists, acclaimed historians, respected journalists – all of them united in their commitment to helping the troops record their wartime experiences. We will visit more than 20 bases in at least 15 states, from New York to California, Alaska to Florida, at home and abroad (see table below).

**Operation Homecoming  
Military Installation Locations as of September 30, 2004  
(by Branch and Date)**

<b>Installation</b>	<b>City</b>	<b>State/Country</b>	<b>Dates</b>
<u>Army</u>			
Fort Drum	Watertown	New York	June 2004
Camp Ederle	Vicenza	Italy	Aug. 2004
Fort Richardson	Anchorage	Alaska	Sept. 2004
<u>Marines</u>			
Camp Lejeune	Jacksonville	North Carolina	July 2004
Camp Pendleton	San Diego	California	Fall 2004
<u>Air Force</u>			
Hurlburt Field	Pensacola	Florida	Fall 2004
Cannon AFB	Clovis	New Mexico	Fall 2004
Offutt AFB	Bellevue	Nebraska	Fall 2004
<u>Navy</u>			
Norfolk Naval Station	Norfolk	Virginia	Sept. 2004
West Pac	San Diego	California	Fall 2004

Up-to-the-minute schedule information – as well as details on the program and the participating writers – is available at the Web site established for this program: [www.operationhomecoming.org](http://www.operationhomecoming.org). The Web site also provides online writing tutorials, educational articles, and literary audio clips to help the troops develop their writing skills.

In addition, to give our troops a sense of their own writing capabilities, the Arts Endowment has produced an accompanying audio CD. Moving from a heart-rending letter from the Civil War to poems about World War II to Vietnam War fiction, the CD explores the variety of literary responses by previous generations of American troops. We have produced 10,000 copies of this CD, and more than 6,000 have already been shipped - or obligated - to bases, Department of Veterans Affairs hospitals, Armed Forces YMCAs, public libraries, troops across the world, and the American public. We are videotaping the writers' base workshops and will edit the footage into a DVD for distribution to the troops and base libraries. We believe this

unprecedented level of outreach to the troops will yield thousands of submissions of wartime writing.

The best writing that emerges from this program will be published in a nationally promoted anthology that will be sold in bookstores and distributed free by the Arts Endowment to military installations, schools, and libraries. The *Operation Homecoming* anthology will be available in late 2005 from a leading non-profit or commercial publishing house after a competitive, open selection process; we expect to announce the publisher in early fall. Those works not chosen for the anthology are still of tremendous value and importance; they will be housed in an existing permanent government archive that will educate future generations of historians and citizens about the thoughts, feelings, and character of our troops.

The response to this program has been overwhelming. Here are a few examples of the letters received:

***From a Marine's father in Virginia***

"Enclosed please find a letter written to me by my nineteen year old son. It is an honest letter written by the hand of a young American Marine who just found himself in extraordinary circumstances."

***From an Army Reservist in Iraq***

"I am an Army Reservist, called to duty for one year. Without the reserves, this war could not be pulled off. I think my essay reflects the hardships that many citizen soldiers endure when they leave their lives behind to serve. It's an important story that should be told and I hope you will use my piece to tell it."

***From a Marine's wife on the home front***

"My daughters, at the time of my husband's deployment, were 4, 3, and 1 and it was difficult to explain what was going on. I had to find the words to explain why their daddy had to go away, why sometimes there were angry people shouting in the streets and why myself and a lot of friends were sad all the time. These were the words I used and my daughter used when talking to other people. I wrote this from my oldest child's viewpoint and although I am not sure if this is what you are looking for, I wanted to share it with you."

***From a recently retired Army veteran in Texas***

"Writing about those things that we combat veterans keep locked up inside is tremendously cathartic. I lost my creative voice after Mogadishu; putting things into perspective took a long time, especially without any encouragement or understanding. Thank you again for this project."

As noted earlier, it is the goal of the Agency to seek public-private partnerships for its national initiatives. Such a partner for *Operation Homecoming* was found with The Boeing Company, which understood the

importance of this program and agreed to provide \$450,000 in support. This significant contribution has allowed the Arts Endowment to undertake this program without the need to divert funds from existing discipline programs.

C. Poetry Recitation

This year the Arts Endowment is undertaking a pilot project to encourage the memorization and recitation of poetry by the young, leading to a *National Poetry Recitation Contest*. This effort, as with other national initiatives, reflects a public-private partnership; in this case, between the National Endowment for the Arts and the Poetry Foundation. The pilot will occur in schools and community centers in the Chicago and Washington, D.C. areas and will involve the development of curricular materials to include a recitation booklet and an audio CD. In the Washington area, plans call for the poetry recitation competition to occur in schools in the District of Columbia, Northern Virginia, and Maryland. Following completion of the pilot, an evaluation will be conducted to determine the success of the pilot and the framework for extending the program nationally. It is anticipated that this program will reach schools throughout the Nation and mirror the success and acceptance of the National Spelling and Geography Bees as important, ongoing educational endeavors.

IV. Research and Analysis

To provide important data to the American public, opinion makers, and the arts field, the Arts Endowment plans to expand the Agency's research and improve the analyses and presentation of the findings. A prime example of this goal can be found in the Agency's most recent research publication, *Reading at Risk: A Survey of Literary Reading in America*.

The report found that literary reading in America is in dramatic decline, with fewer than half of American adults now reading literature. The report documents drops in reading in all groups studied, with the steepest rate of decline – 28 percent – occurring in the youngest age group.

Based on a survey conducted for the Arts Endowment by the U.S. Census Bureau, and comparing the findings from similar surveys conducted 10 and 20 years ago, the report documents an overall decline of 10 percentage points in literary readers from 1982 to 2002. This represents a loss of 20 million potential readers. Moreover, the rate of decline is increasing, nearly tripling in the last decade.

Of additional concern was the implication that reading correlates to civic engagement. The study shows that literary readers are much more likely to be involved in culture, sports and volunteer activities than are non-readers. Literary readers are nearly three times as likely to attend a performing arts event, almost four times as likely to visit an art museum, more than two-and-a-

half times as likely to do volunteer or charity work, and over one-and-a-half times as likely to attend or participate in sports activities. People who read more books tend to have the highest level of participation in other activities.

The most important factor in literacy reading rates is education. The report shows that only 14 percent of adults with a grade school education read literature in 2002; by contrast, more than five times as many respondents with a graduate school education – 74 percent – read literary works.

As stated by Chairman Gioia at a news conference on this subject held on July 8, 2004,

*This report documents a national crisis. Reading develops a capacity for focused attention and imaginative growth that enriches both private and public life. The decline in reading among every segment of the adult population reflects a general collapse in advanced literacy. To lose this human capacity – and all the diverse benefits it fosters – impoverishes both cultural and civic life.*

In affirming the importance of the arts in any adequate education, the U.S. Secretary of Education has recently noted the increasing number of studies finding that arts instruction motivates children to achieve stronger results in core academic subjects. Research also suggests that young people who learn about and participate in the arts acquire skills that help them in decision-making, problem solving, creative thinking and teamwork - the skills vital to the workforce of tomorrow. The Arts Endowment's report on literary reading makes it evident that children who are committed readers are far more likely to become involved in cultural and civic life when adults.

While it is not our role directly to address issues of literacy in America, it is our role to bring the vitality and creativity of the arts to all Americans. It is becoming increasingly clear that these efforts are inextricably linked to enhanced education, economic opportunity, literacy, and civic engagement.

The following tables display some of the survey results.

#### **Rates of Decline in Literary Reading**

	<b><u>1982</u></b>	<b><u>1992</u></b>	<b><u>2002</u></b>
<b>% of U.S. Adult Population Reading Literature</b>	<b>56.9%</b>	<b>54.0%</b>	<b>46.7%</b>
<b>Percentage Point (pp) Decline</b>	<b>--</b>	<b>-2.9 pp</b>	<b>-7.3 pp</b>
<b>Rate of Decline in % of Adult Literary Readers</b>	<b>--</b>	<b>-5%</b>	<b>-14%</b>
<b>The 10-year rate of decline has almost tripled, from -5% to -14%, since 1992.</b>			

### Literary Reading by Gender

	Percentage by Group			Change, 1982 to 2002
	<u>1982</u>	<u>1992</u>	<u>2002</u>	<u>Percentage Point (pp)</u>
<b>Men</b>	49.1	47.4	37.6	-11.5 pp
<b>Women</b>	63.0	60.3	55.1	-7.9 pp

### Literary Reading by Race/Ethnicity

	Percentage by Group			Change, 1982 to 2002
	<u>1982</u>	<u>1992</u>	<u>2002</u>	<u>Percentage Point (pp)</u>
<b>White</b>	59.8	58.0	51.4	-8.4 pp
<b>African American</b>	42.3	45.6	37.1	-5.2 pp
<b>Hispanic</b>	36.4	34.0	26.5	-9.9 pp
<b>Other</b>	50.2	42.7	43.7	-6.5 pp

### Literary Reading by Education

	Percentage by Group			Change, 1982 to 2002
	<u>1982</u>	<u>1992</u>	<u>2002</u>	<u>Percentage Point (pp)</u>
<b>Grade School</b>	21.2	17.3	14.0	-7.2 pp
<b>Some High School</b>	38.8	34.5	23.4	-15.4 pp
<b>High School Graduate</b>	54.2	49.0	37.7	-16.5 pp
<b>Some College</b>	72.9	65.0	52.9	-20.0 pp
<b>College Graduate/ Graduate School</b>	82.1	74.6	66.7	-15.4 pp

### Literary Reading by Age

	Percentage by Group			Percentage Point (pp) Change	
	<u>1982</u>	<u>1992</u>	<u>2002</u>	<u>1992-2002</u>	<u>1982-2002</u>
<b>18 – 24</b>	59.8	53.3	42.8	-10.5 pp	-17.0 pp
<b>25 – 34</b>	62.1	54.6	47.7	-6.9 pp	-14.4 pp
<b>35 – 44</b>	59.7	58.9	46.6	-12.3 pp	-13.1 pp
<b>45 – 54</b>	54.9	56.9	51.6	-5.3 pp	-3.3 pp
<b>55 – 64</b>	52.8	52.9	48.9	-4.0 pp	-3.9 pp
<b>65 – 74</b>	47.2	50.8	45.3	-5.5 pp	-1.9 pp
<b>75 &amp; Older</b>	40.9	40.4	36.7	-3.7 pp	-4.2 pp

### Literary Reading by Young Adults

	<i>Percentage of Group</i>			<i>Rate of Decline</i>
<u>Age Group</u>	<u>1982</u>	<u>1992</u>	<u>2002</u>	<u>1982 - 2002</u>
18 - 24	59.8	53.3	42.8	-28%
25 - 34	62.1	54.6	47.7	-23%
35 and Older	53.0	54.0	47.0	-11%

### Participation in Cultural and Social Activities (2002)

	<i>Percentage of U.S. Adult Population</i>	
	<u>Literary Readers</u>	<u>Non-Literary Readers</u>
Perform Volunteer & Charity Work	43	17
Visit Art Museums	44	12
Attend Performing Arts Events	49	17
Attend Sporting Events	45	27

#### V. Performance Reports and Plans

As required by the Government Performance and Results Act of 1993 (GPRA) and subsequent guidance from OMB, the Arts Endowment is pleased to submit its Annual Performance Reports for Fiscal Years 2001 through 2004. The reports are based on and cover performance goals and indicators contained in applicable Performance Plans for the same period. The tables that follow this narrative compare actual performance with prior estimates. It is important to recognize the following as one examines the tables.

**First, applications for any given fiscal year are not fully acted upon by the time the Performance Plan for that year is initially submitted.** For example, many of the grant applications for 2005 support will not be fully reviewed and acted upon until the first quarter of FY 2005. Thus, we rely upon prior year results when projecting subsequent year activity.

**Second, we anticipate that approximately 24 months will need to pass after the close of a fiscal year before sufficient information is received to fully assess the accomplishments of that year.** The table below shows the status, as of September 30, 2004, of final reports received for each year covered by these preliminary reports.



Fiscal Year	# of Months Since Close of Year	# of Months Above or Below 24 Month Benchmark	% of Final Reports Received as of Sept. 30, 2004	Performance Report Status
2001	36	+12	93.3	Final
2002	24	0	90.2	Annual
2003	12	-12	57.2	Annual
2004	0	-24	9.0	Annual

**Third, we have improved our data collection and reporting efforts and maintained consistency.** When this effort began in the late 1990s, our capacity to collect data and report on it was limited, and, as experience has shown, the data were not as clearly defined as originally thought. Since then, we:

- Modified our grants data collection forms to better define requested information,
- Modified our Grants Management System to ensure that data could be captured,<sup>1</sup>
- Significantly expanded the ability to extract and report on that data,
- Essentially maintained collection of the same information on an annual basis,
- Began in FY 2001 to collect performance data with grant applications in addition to collecting it with grantee final reports, and
- Now update GPRA-related data during the revised project/budget process (an opportunity for applicants to revise their projects and budgets in response to a tentatively recommended award amount).

As a result of these actions, performance projections rely upon information provided by our grantees – reflected in application forms, revised project/budget forms, and final reports. By the time we consider the Performance Report for a given fiscal year to be “final” (at least 90% of final reports received), the overwhelming majority of the data provided comes from grantee final reports.

**Fourth, eligible applicants to the Arts Endowment have full discretion in choosing the funding area from which to seek support, and in determining the nature of their projects.** The Arts Endowment issues application guidelines that identify areas of funding directly related to each of our goals and describe, broadly, types of eligible projects. Based on historical data, we estimate numbers of applications and types of projects or activities to be funded; however, it is not until the applications are received and reviewed that a clearer picture emerges. From year to year, applicant interests may change from

---

<sup>1</sup> It should be noted that our outmoded Grants Management System is currently not capable of collecting equivalent data for cooperative agreements.

one area to another or from one type of project to another, thus adding to the challenge of making reliable estimates. To a large extent, adjustments in our projections reflect this external factor.

Provided following this page are a series of tables that present the most current performance data for Fiscal Years 2001 to 2004.

BLANK PAGE

**National Endowment for the Arts  
FY 2001 PERFORMANCE REPORT (FINAL)  
September 2004**

<u>GOAL</u>	<u>FUNDING CATEGORY</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2001 Revised Final Projections Reported with FY 2003 Performance Plan</u>			<u>FY 2001 Final Presentation with FY 2006 Performance Plan (Performance as of 7/22/04; 93% of Final Reports Received )</u>			<u>Difference</u>		
			<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
<b>1. ACCESS: Broaden public access to the excellence and diversity of the arts.</b>	Competitive and Leadership		318	\$ 8,845		318	\$ 8,845		0	\$ -	
		<i>Concerts/readings/performances</i>			13,203			14,934			1,731
		<i>School and other residencies</i>			3,588			3,177			(411)
		<i>Exhibitions</i>			245			284			39
		<i>Books &amp; catalogues</i>			165			118			-47
<b>2. CREATIVITY: Foster opportunities for the creation and presentation of artistically excellent work.</b>	Competitive and Leadership		764	\$ 18,206		764	\$ 18,206		0	\$ -	
		<i>Artworks created</i>			7,476			6,268			(1,208)
		<i>Concerts/readings/performances</i>			15,616			14,735			(881)
		<i>Exhibitions</i>			3,395			3,132			(263)
		<i>Fellowships to writers</i>			40			40			0
		<i>School and other residencies</i>			2,670			1,932			(738)

Shaded areas include representative activity, not exclusive activity.

Dollars rounded to nearest thousand.

"# of Awards" and "\$" figures represent actual activity as of the date this report was prepared.

**National Endowment for the Arts  
FY 2001 PERFORMANCE REPORT (FINAL)  
September 2004**

<u>GOAL</u>	<u>FUNDING CATEGORY</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2001 Revised Final Projections Reported with FY 2003 Performance Plan</u>			<u>FY 2001 Final Presentation with FY 2006 Performance Plan (Performance as of 7/22/04; 93% of Final Reports Received )</u>			<u>Difference</u>		
			<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
<b>3. ARTS EDUCATION: Strengthen the role of the arts in our Nation's educational system and encourage lifelong learning in the arts.</b>	Competitive and Leadership		273	\$ 7,723		273	\$ 7,723		0	\$ -	
		<i>Concerts/readings/performances</i>			8,542			8,038			(504)
		<i>School and other residencies</i>			8,007			7,960			(47)
<b>4. PRESERVATION: Preserve our Nation's cultural heritage for the 21st century.</b>	Competitive and Leadership		231	\$ 5,033		231	\$ 5,033		0	\$ -	
		<i>American Jazz Masters</i>			3			3			0
		<i>Apprenticeships</i>			293			282			(11)
		<i>Concerts/readings/performances</i>			1,569			1,632			63
		<i>Conserve, repair, restore</i>			59,281			40,343			(18,938)
		<i>Identify/document</i>						12,123			12,123
		<i>National Heritage Fellowships</i>			13			13			0
		<i>School and other residencies</i>			486			291			(195)

Shaded areas include representative activity, not exclusive activity.

Dollars rounded to nearest thousand.

"# of Awards" and "\$" figures represent actual activity as of the date this report was prepared.

**National Endowment for the Arts  
FY 2001 PERFORMANCE REPORT (FINAL)  
September 2004**

GOAL	FUNDING CATEGORY	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2001 Revised Final Projections Reported with FY 2003 Performance Plan			FY 2001 Final Presentation with FY 2006 Performance Plan (Performance as of 7/22/04; 93% of Final Reports Received )			Difference		
			# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity
<b>5. ORGANIZATIONAL STABILITY: Strengthen the organizational and financial capabilities of America's arts organizations.</b>	Competitive and Leadership		97	\$ 6,358		97	\$ 6,358		0	\$ -	
<b>6. COMMUNITY ARTS DEVELOPMENT: Help address the concerns of America's communities through the arts.</b>	Competitive and Leadership		12	\$ 990		12	\$ 990		0	\$ -	
		<i>Mayors at Inst for City Design</i>			60			48			(12)
	Challenge America		364	\$ 4,105		364	\$ 4,105		0	\$ -	
		<i>Positive Alternatives for Youth: Creative Links</i>			198			198			0
		<i>Community Arts Development: ArtsREACH</i>			166			166			0
<b>7. PARTNERSHIPS: Strengthen the Endowment's partnerships with the public and private sectors.</b>	Competitive and Leadership		22	\$ 907		22	\$ 907		0	\$ -	
		<i>Collaborate w/Federal partners Projects in different countries</i>			24			24			0
					30			30			0
<b>TOTALS</b>	Competitive and Leadership		<b>1,717</b>	<b>\$ 48,062</b>		<b>1,717</b>	<b>\$ 48,062</b>		<b>0</b>	<b>\$ -</b>	
<b>TOTALS</b>	Challenge America		<b>364</b>	<b>\$ 4,105</b>		<b>364</b>	<b>\$ 4,105</b>		<b>0</b>	<b>\$ -</b>	

Shaded areas include representative activity, not exclusive activity.

Dollars rounded to nearest thousand.

"# of Awards" and "\$" figures represent actual activity as of the date this report was prepared.

BLANK PAGE

**National Endowment for the Arts  
FY 2002 PERFORMANCE REPORT  
September 2004**

GOAL	FUNDING CATEGORY	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2002 Revised Final Projections with FY 2004 Performance Plan (Performance as of 1-17-03; 18% of Final Reports Received)			FY 2002 Current Performance with FY 2006 Performance Plan (Performance as of 9/30/04; 90% of Final Reports Received)			Difference		
			# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity
1. ACCESS: Broaden public access to the excellence and diversity of the arts.	Competitive and Leadership 1\		292	\$ 8,573		292	\$ 8,573		0	\$ -	0
		Concerts/readings/performances	7,026			7,382			356		
		School and other residencies	1,450			1,153			(297)		
		Exhibitions	1,075			619			(456)		
	Challenge America		79	\$ 4,122		79	\$ 4,122		0	\$ -	0
		Concerts/readings/performances	3,070			3,246			176		
		School and other residencies	1,542			1,231			(311)		
		Community organization partners	3,144			1,047			(2,097)		
2. CREATIVITY: Foster opportunities for the creation and presentation of artistically excellent work.	Competitive and Leadership		792	\$ 20,269		792	\$ 20,269		0	\$ -	0
		Artworks created	6,524			6,521			(3)		
		Concerts/readings/performances	14,648			16,088			1,440		
		Exhibitions	3,040			2,612			(428)		
		Fellowships to writers	45			45			0		
		School and other residencies	2,620			3,880			1,260		
3. ARTS LEARNING: Strengthen the role of the arts in our Nation's educational system and encourage lifelong learning in the arts.	Competitive and Leadership 2\		215	\$ 8,594		215	\$ 8,594		0	\$ -	0
		Concerts/readings/performances	9,944			7,100			(2,844)		
		School and other residencies	7,472			3,614			(3,858)		
	Challenge America		249	\$ 2,515		249	\$ 2,515		0	\$ -	0
		Concerts/readings/performances				1,593			1,593		
		School and other residencies				1,503			1,503		
1) To ensure consistency with budget, some Access & CAD Leadership funds are included in Creativity.											
2) Includes \$2,082,000 of NEA grantmaking funds obligated under the Partnership Agreements for Arts Education activities.											

1\ To ensure consistency with budget, some Access & CAD Leadership funds are included in Creativity.

2\ Includes \$2,082,000 of NEA grantmaking funds obligated under the Partnership Agreements for Arts Education activities.

Shaded area represents predominant activity, not exclusive activity.

Dollars rounded to the nearest thousand.

"# of Awards" and "\$" figures represent actual activity as of the date this report was prepared.



**National Endowment for the Arts  
FY 2002 PERFORMANCE REPORT  
September 2004**

GOAL	FUNDING CATEGORY	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2002 Revised Final Projections with FY 2004 Performance Plan (Performance as of 1-17-03; 18% of Final Reports Received)			FY 2002 Current Performance with FY 2006 Performance Plan (Performance as of 9/30/04; 90% of Final Reports Received)			Difference		
			# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity
4. HERITAGE & PRESERVATION: Preserve our Nation's cultural heritage for the 21st century.	Competitive and Leadership		220	\$ 4,581		220	\$ 4,581		0	\$ -	0
		American Jazz Masters			3			3			0
		Apprenticeships			431			405			(26)
		Concerts/readings/performances			1,673			1,657			(16)
		Conserve, repair, restore and			11,079			11,147			68
		Identify/document			6,222			8,803			2,581
		National Heritage Fellowships			13			13			0
		School and other residencies			132			222			90
5. ORGANIZATIONAL CAPACITY: Strengthen the organizational and financial capabilities of America's arts organizations.	Competitive and Leadership		66	\$ 4,234		66	\$ 4,234		0	\$ -	0
6. COMMUNITY ARTS DEVELOPMENT: Help address the concerns of America's communities through the arts.	Challenge America		167	\$ 2,865		167	\$ 2,865		0	\$ -	0
		Concerts/readings/performances			2,034			1,856			(178)
		Community organization partners			2,052			1,690			(362)

Shaded area represents predominant activity, not exclusive activity.

Dollars rounded to the nearest thousand.

"# of Awards" and "\$" figures represent actual activity as of the date this report was prepared.

**National Endowment for the Arts  
FY 2002 PERFORMANCE REPORT  
September 2004**

GOAL	FUNDING CATEGORY	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2002 Revised Final Projections with FY 2004 Performance Plan (Performance as of 1-17-03; 18% of Final Reports Received)			FY 2002 Current Performance with FY 2006 Performance Plan (Performance as of 9/30/04; 90% of Final Reports Received)			Difference		
			# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity
7. PARTNERSHIPS: Strengthen the Endowment's partnerships with the public and private sectors.	Competitive and Leadership		23	\$ 1,626		23	\$ 1,626		0	\$ -	0
		Collaborate w/Federal partners Projects in different countries	20 30			20 30			0 0		
	Partnership (with State and Regional Arts Agencies)		65	\$ 32,081		65	\$ 32,081		0	\$ -	
	Partnership Challenge America (with SAAs and RAOs)		Included in above figure	\$ 6,760		Included in above figure	\$ 6,760			\$ -	
TOTALS	Competitive and Leadership		1,608	47,877		1,608	47,877		0	\$ -	
	Challenge America		495	\$ 9,502		495	\$ 9,502		0	\$ -	
	(Subtotal)		2,103	\$ 57,379		2,103	\$ 57,379		0	\$ -	
	Partnership-Basic			\$ 32,081			\$ 32,081			\$ -	
	Partnership-Challenge America			\$ 6,760			\$ 6,760			\$ -	
	(Subtotal Partnership)		65	\$ 38,841		65	\$ 38,841		0	\$ -	
	Grand Total Grantmaking Funds		2,168	\$ 96,220		2,168	\$ 96,220		0	\$ -	

Shaded area represents predominant activity, not exclusive activity.

Dollars rounded to the nearest thousand.

"# of Awards" and "\$" figures represent actual activity as of the date this report was prepared.

BLANK PAGE

**National Endowment for the Arts  
FY 2003 PERFORMANCE REPORT  
September 2004**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>FUNDING AREA</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2003 Revised Final Projections with FY 2005 Performance Plan (Performance as of 12-31-03; 19% of Final Reports Received)</u>			<u>FY 2003 Current Performance with FY 2006 Performance Plan (Performance as of 9-30-04; 57% of Final Reports Received)</u>			<u>Difference</u>		
			<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
<b>1. ARTISTIC CREATIVITY AND PRESERVATION: Encourage and support artistic creativity and preserve our diverse cultural heritage.</b>	Artistic Creativity and Preservation		1,180	\$ 31,452		1,180	\$ 31,452		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.		<i>The number of projects whose primary purpose is to create or present art.</i>			900-950			915			on target
		<i>The number of artists participating in projects whose primary purpose is to create art.</i>			60,000-80,000			78,500			on target
b. Artistic works & cultural traditions are preserved.		<i>The number of projects whose primary purpose is the presentation of diverse cultural traditions.</i>			35-40			28			below target
		<i>The number of projects whose primary purpose is to repair, restore, or conserve artistic works.</i>			50-55			54			on target
c. Organizations enhance their ability to achieve their artistic & public service goals.		<i>The number of projects whose primary purpose is professional development for staff of organizations that provide arts activities.</i>			15-20			17			on target

Dollars rounded to the nearest thousand.

"# of Awards and "\$" figures represent actual activity as of the date this report was prepared.

**National Endowment for the Arts  
FY 2003 PERFORMANCE REPORT  
September 2004**

GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)	FUNDING AREA	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2003 Revised Final Projections with FY 2005 Performance Plan (Performance as of 12-31-03; 19% of Final Reports Received)			FY 2003 Current Performance with FY 2006 Performance Plan (Performance as of 9-30-04; 57% of Final Reports Received)			Difference		
			# of Awards	\$	Target Levels	# of Awards	\$	Extent of Activity	# of Awards	\$	Extent of Activity
			257	\$ 11,583		257	\$ 11,583		0	\$ -	
2. LEARNING IN THE ARTS: Advance learning in the arts.	Learning in the Arts										
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts.		The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.	200-225			216			on target		
		The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.	.58 m			.60 m			on target		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning.		The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.	40-45			44			on target		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth.		The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.	10-15			15			on target		
3. ACCESS TO THE ARTS: Make the arts more widely available in communities throughout the country.	Access to the Arts		368	\$ 15,172		368	\$ 15,172		0	\$ -	
a. Audiences nationwide have opportunities to experience a wide range of art forms & activities.		The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).	30-35m			30m			on target		
b. Communities are strengthened through access to the arts.		The number of projects whose primary purpose is to strengthen communities through access to the arts.	100-110			102			on target		
4. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.	Partnerships for the Arts										
State Partnerships											
State & Regional				\$ 24,773			\$ 24,773			\$ -	

Dollars rounded to the nearest thousand.

"# of Awards and "\$" figures represent actual activity as of the date this report was prepared.

**National Endowment for the Arts  
FY 2003 PERFORMANCE REPORT  
September 2004**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>FUNDING AREA</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2003 Revised Final Projections with FY 2005 Performance Plan (Performance as of 12-31-03; 19% of Final Reports Received)</u>			<u>FY 2003 Current Performance with FY 2006 Performance Plan (Performance as of 9-30-04; 57% of Final Reports Received)</u>			<u>Difference</u>		
			<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
Underserved Set-Aside				\$ 6,256			\$ 6,256			\$ -	
Challenge America				\$ 6,766			\$ 6,766			\$ -	
Subtotal State Partnerships			63	\$ 37,795		63	\$ 37,795		0	\$ -	
<i>Other Public &amp; Private Partnerships</i>			25	\$ 645		25	\$ 645		0	\$ -	
Total Partnerships for the Arts			88	\$ 38,440		88	\$ 38,440		0	\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.		<i>The number of communities reached through State arts agency and regional arts organization partnership agreements with the Arts Endowment. 2\</i>			2,000-2,500			1,500-1,700			below target
b. State arts agencies, regional arts organizations, & the Arts Endowment work together to achieve common or complementary goals.		<i>The number of initiatives between the Arts Endowment, the State arts agencies, &amp; the regional arts organizations.</i>			3-5			3-5			on target
c. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.		<i>The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.</i>			10-15			10-15			on target
<b>TOTALS 1\</b>			<b>1,893</b>	<b>\$ 96,647</b>		<b>1,893</b>	<b>\$ 96,647</b>		<b>0</b>	<b>\$ -</b>	
Cross-Cutting Indicators		<i>The amount of matching funds reported by Arts Endowment grantees, including State partners.</i>			450-500m			477m			on target
		<i>The number of communities directly benefiting from Arts Endowment-funded projects involving outreach and touring.</i>			3,900-4,200			3,905			on target

1\ See Tables 1 & 2 in Budget for details on sources of funds.  
2\ An additional 1,000 communities are reached through grants supported in part with Arts Endowment funds.

Dollars rounded to the nearest thousand.

"# of Awards and "\$" figures represent actual activity as of the date this report was prepared.

BLANK PAGE

**National Endowment for the Arts  
FY 2004 PERFORMANCE REPORT  
September 2004**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>FUNDING AREA</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2004 Revised Projections with FY 2005 Performance Plan</u>			<u>FY 2004 Revised Final Projections with FY 2006 Performance Plan (Performance as of 9-30-04; 9% of Final Reports Received)</u>			<u>Difference</u>		
			<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
<b>1. ARTISTIC CREATIVITY AND PRESERVATION: Encourage and support artistic creativity and preserve our diverse cultural heritage.</b>	Artistic Creativity and Preservation		1,178	\$ 30,439		1,196	\$ 31,773		18	\$ 1,334	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.		<i>The number of projects whose primary purpose is to create or present art.</i>			900-950			825-900			decrease
		<i>The number of artists participating in projects whose primary purpose is to create art.</i>			60,000-80,000			70,000-80,000			increase
b. Artistic works & cultural traditions are preserved.		<i>The number of projects whose primary purpose is the presentation of diverse cultural traditions.</i>			35-40			40-50			increase
		<i>The number of projects whose primary purpose is to repair, restore, or conserve artistic works.</i>			50-55			55-65			increase
c. Organizations enhance their ability to achieve their artistic & public service goals.		<i>The number of projects whose primary purpose is professional development for staff of organizations that provide arts activities.</i>			15-20			20-25			increase

Dollars rounded to the nearest thousand.

"# of Awards" and "\$" figures represent actual or projected activity as of the date this report was prepared.



**National Endowment for the Arts  
FY 2004 PERFORMANCE REPORT  
September 2004**

GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)	FUNDING AREA	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2004 Revised Projections with FY 2005 Performance Plan			FY 2004 Revised Final Projections with FY 2006 Performance Plan (Performance as of 9-30-04: 9% of Final Reports Received)			Difference		
			# of Awards	\$	Target Levels	# of Awards	\$	Target Levels	# of Awards	\$	Extent of Activity
2. LEARNING IN THE ARTS: Advance learning in the arts.	Learning in the Arts		250	\$ 10,625		254	\$ 10,641		4	\$ 16	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts.		The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.	200-225			185-195			decrease		
		The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.	.580m			1.2m			increase		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning.		The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.	40-45			45-55			increase		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth.		The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.	3-5			3-5			no change		
3. ACCESS TO THE ARTS: Make the arts more widely available in communities throughout the country.	Access to the Arts		482	\$ 17,288		604	\$ 17,201		122	\$ (87)	
a. Audiences nationwide have opportunities to experience a wide range of art forms & activities.		The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).	30-35m			50-60m			decrease		
b. Communities are strengthened through access to the arts.		The number of projects whose primary purpose is to strengthen communities through access to the arts.	100-110			175-200			increase		
4. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.	Partnerships for the Arts										
State Partnerships											

Dollars rounded to the nearest thousand.

"# of Awards" and "\$" figures represent actual or projected activity as of the date this report was prepared.

**National Endowment for the Arts  
FY 2004 PERFORMANCE REPORT  
September 2004**

GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)	FUNDING AREA	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2004 Revised Projections with FY 2005 Performance Plan			FY 2004 Revised Final Projections with FY 2006 Performance Plan (Performance as of 9-30-04; 9% of Final Reports Received)			Difference		
			# of Awards	\$	Target Levels	# of Awards	\$	Target Levels	# of Awards	\$	Extent of Activity
State & Regional				\$ 24,418			\$ 24,549			\$ 131	
Underserved Set-Aside				\$ 6,609			\$ 6,898			\$ 289	
Challenge America				\$ 8,691			\$ 8,721			\$ 30	
Subtotal State Partnerships			65	\$ 39,718		63	\$ 40,168		(2)	\$ 450	
Other Public & Private Partnerships			25	\$ 1,227		9	\$ 1,138		(16)	\$ (89)	
Total Partnerships for the Arts			90	\$ 40,945		72	\$ 41,306		(18)	\$ 361	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.		The number of communities reached through State arts agency and regional arts organization partnership agreements with the Arts Endowment. 2\			2,000-2,500			1,500-1,700			decrease
b. State arts agencies, regional arts organizations, & the Arts Endowment work together to achieve common or complementary goals.		The number of initiatives between the Arts Endowment, the State arts agencies, & the regional arts organizations.			3-5			3-5			no change
c. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.		The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.			10-15			10-15			no change
<b>TOTALS 1\</b>			<b>2,000</b>	<b>\$ 99,297</b>		<b>2,126</b>	<b>\$ 100,921</b>		<b>126</b>	<b>\$ 1,624</b>	
Cross-Cutting Indicators		The amount of matching funds reported by Arts Endowment grantees.			450-500 m			550-600m			increase
		The number of communities directly benefiting from Arts Endowment-funded projects.			3,900-4,200			3,900-4,200			no change

1\ See Tables 1 & 2 in Budget for details on sources of funds.

2\ An additional 1,000 communities are reached through grants supported in part with Arts Endowment funds.

Dollars rounded to the nearest thousand.

"# of Awards" and "\$" figures represent actual or projected activity as of the date this report was prepared.

BLANK PAGE



## *A Message from the Director of Finance*

I am pleased to join with Chairman Gioia in presenting the National Endowment for the Arts' *Fiscal Year 2004 Performance and Accountability Report*, a first for our Agency. This report summarizes the Arts Endowment's performance and accomplishments – programmatically, financially, and operationally – during the past year.

Fiscal Year 2004 has been a time of great change for the financial operations of the Arts Endowment. During our first-ever financial statements audit in FY 2003 – in which we received an unqualified opinion – our auditor noted that our outdated financial management information system represented a material weakness in Agency operations. We immediately set out to correct that deficiency, and in less than one year have successfully transitioned to a fully JFMIP-compliant system through a cross-servicing agreement with the Federal Aviation Administration.

Even with the extra demands placed on staff by our antiquated system and the transition to a new system, I am delighted to note that the audit of our FY 2004 financial statements has resulted in another unqualified opinion. No issues of non-compliance and no new material weaknesses have been identified; the finance system was identified again as a weakness only because the transition to the new system had not occurred prior to the end of Fiscal Year 2004. All FY 2005 transactions will be recorded in the new system and we expect that next year's audit will reveal no material weaknesses or areas of non-compliance.

Fiscal Year 2005 will be challenging as well, as staff adjust to the new finance system and make changes to related business processes to enhance Agency efficiency and effectiveness. We approach this challenging year with anticipation, as we are confident that this transition to a new finance system represents one of the most significant steps the Arts Endowment has taken in recent years in its ongoing commitment to ensuring that we are fully accountable for the use of the funds that have been entrusted to us for the benefit of the American people.

Sandra L. Stueckler  
Director of Finance

November 15, 2004

BLANK PAGE

***Financial Statements  
and Related Auditor's Report***

BLANK PAGE



**LEON SNEAD  
& COMPANY, P.C.**

*Certified Public Accountants  
& Management Consultants*

416 Hungerford Drive, Suite 400  
Rockville, Maryland 20850  
301-738-8190  
fax: 301-738-8210  
leonsnead.companypc@erols.com

Inspector General, National Endowment for the Arts  
Chairman, National Endowment for the Arts

**Independent Auditor's Report**

We have audited the balance sheets of the National Endowment for the Arts (Arts Endowment) as of September 30, 2004, and 2003, and the related statements of net cost, changes in net position, budgetary resources, and financing (the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the Arts Endowment's internal control over financial reporting and tested the Arts Endowment's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

**SUMMARY**

As stated in our opinion on the financial statements, we found that the Arts Endowment's financial statements as of and for the years ended September 30, 2004, and 2003, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified a material weakness in Arts Endowment's financial management system.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss in more detail our opinion on the Arts Endowment's financial statements, our consideration of the Arts Endowment's internal control over financial reporting, our tests of the Arts Endowment's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.



## **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying balance sheets of the Arts Endowment as of September 30, 2004, and 2003, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and financing of the Arts Endowment as of and for the years ended September 30, 2004, and 2003, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of Arts Endowment management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Arts Endowment's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted a matter, discussed in the following paragraphs, involving internal control and its operation that we consider to be a material weakness.

The fiscal year 2003 financial statement audit showed that the Chart of Accounts and transactions codes in the Arts Endowment's Financial Management Information System (FMIS) did not conform to the chart of accounts and transaction codes of the U.S. Standard General Ledger (SGL) and its posting rules. The system deficiencies were reported as a material weakness in our report on internal controls for fiscal year 2003.

Although the Arts Endowment was able to produce financial statements that were fairly stated in accordance with generally accepted accounting standards for fiscal years 2003 and 2004, extensive manual efforts and supplemental tracking systems were required to do so.

FMIS is a legacy accounting system that is not able to accommodate changes to elements, such as general ledger account definitions and transaction codes, without changing the system's internal logic. The Arts Endowment determined that the costs to make such changes to FMIS would be prohibitive. Even before the 2003 audit, Arts Endowment management recognized the shortcomings of the legacy accounting system. Information technology plans included funding to allow the Arts Endowment to enter into a cross-servicing arrangement with another Federal agency.

OMB Circular A-127, *Financial Management Systems*, requires Federal agencies' financial management systems to maintain accounting data to permit reporting in accordance with accounting standards and to record events applying the requirements of the U.S. SGL at the transaction level.

During fiscal year 2004, the Arts Endowment entered into an agreement with the Department of Transportation, Federal Aviation Administration, Enterprise Services Center (ESC) to obtain financial management system services. ESC uses commercial off-the-shelf (COTS) software, which has been certified to be compliant with Federal financial management system requirements by the Joint Financial Management Improvement Program (JFMIP). The system, also known as Delphi, was scheduled to start production for the Arts Endowment on October 18, 2004. We acknowledge the Arts Endowment's efforts to correct the material weakness in its financial management system and have reiterated our encouragement of their existing plans to proceed with converting their legacy system as quickly as a controlled, well planned, process allows.

#### Management Response

The Arts Endowment acknowledged that the Agency's current financial management system represents a material weakness. As discussed in their response to last year's finding, they have been committed to eliminating this weakness as quickly as possible. Management stated they have taken all necessary steps to do so and will soon be implementing the Delphi system, which is expected to eliminate the weakness. They also stated they were on schedule to have all fiscal year 2005 transactions recorded in the new system.

Management of the Arts Endowment reported the aforementioned material weakness in its reporting prepared pursuant to the Federal Managers' Financial Integrity Act (FMFIA).

A summary of the status of prior year reportable conditions is included as Attachment 1.

We noted another matter involving internal control over financial reporting and its operation that we have reported to the management of the Arts Endowment in a separate letter dated November 1, 2004.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

## **RESPONSIBILITIES**

### Management Responsibilities

Management of the Arts Endowment is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

### Auditor Responsibilities

Our responsibility is to express an opinion on the fiscal year 2004 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 01-02. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the Arts Endowment's internal control over financial reporting by obtaining an understanding of the Arts Endowment's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by

FMFIA. Our procedures were not designed to provide assurance on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Arts Endowment's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Arts Endowment. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02, auditors are generally required to report whether agencies' financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. SGL at the transaction level specified in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, the Accountability of Tax Dollars Act, which requires the Arts Endowment to prepare and submit audited financial statements to Congress and the Director of OMB, did not extend to Arts Endowment the requirement to comply with FFMIA. Consequently, we did not test, nor are we reporting on, the Arts Endowment's compliance with FFMIA.

#### **AGENCY COMMENTS AND AUDITOR EVALUATION**

In commenting on the draft of this report, the management of Arts Endowment concurred with the facts and conclusions in our report. A copy of management's response, which includes discussion of actions planned or taken to correct the reported deficiencies, accompanies this report.

## **DISTRIBUTION**

This report is intended solely for the information and use of the management and the Office of Inspector General of the Arts Endowment, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Leon Snead & Company, P.C.*  
Leon Snead & Company, P.C.  
November 1, 2004

## ATTACHMENT I

### Schedule of Prior Year Reportable Conditions

<u>Description</u>	<u>Status as of September 30, 2004</u>
1. The Chart of Accounts and transaction codes in FMIS did not conform to the U.S. Standard General Ledger (SGL) and its posting rules (material weakness).	1. As discussed in the Independent Auditor's Report, during fiscal year 2004, the Arts Endowment entered into an agreement with the Department of Transportation, Federal Aviation Administration, Enterprise Services Center (ESC) to obtain financial management system services. The system, also known as Delphi, was scheduled to start production for the Arts Endowment on October 18, 2004.
2. The Arts Endowment did not have a documented asset capitalization policy.	2. The Arts Endowment published an asset capitalization policy during the fiscal year 2003 audit and implemented it in fiscal year 2004.
3. The Arts Endowment did not have a process in place to estimate grant liabilities in accordance with Federal accounting standards.	3. Management developed a methodology to estimate grant liabilities and implemented it in fiscal year 2003.



**National Endowment for the Arts**  
**Balance Sheet**  
**As of September 30, 2004 and 2003**  
(In Dollars)

	2004	2003
<b>ASSETS:</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 120,239,117	\$ 117,064,668
Investments (Note 3)	905,472	934,249
Accounts Receivable (Note 4)	190,597	112,500
Total Intragovernmental	<u>121,335,186</u>	<u>118,111,417</u>
Accounts Receivable (Note 4)	37,507	431
Advances to Grantees	81,300	109,754
General Property, Plant and Equipment, Net (Note 5)	86,349	189,493
<b>TOTAL ASSETS</b>	<u><u>\$ 121,540,342</u></u>	<u><u>\$ 118,411,095</u></u>
<b>LIABILITIES:</b>		
Intragovernmental:		
Accounts Payable	\$ 778,529	\$ 169,039
Total Intragovernmental	<u>778,529</u>	<u>169,039</u>
Other	20,896,426	26,562,049
<b>TOTAL LIABILITIES (Note 6)</b>	<u><u>\$ 21,674,955</u></u>	<u><u>\$ 26,731,088</u></u>
<b>NET POSITION:</b>		
Unexpended Appropriations	89,259,169	85,538,445
Cumulative Results of Operations	10,606,218	6,141,562
<b>TOTAL NET POSITION</b>	<u><u>\$ 99,865,387</u></u>	<u><u>\$ 91,680,007</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 121,540,342</u></u>	<u><u>\$ 118,411,095</u></u>

The accompanying notes are an integral part of these statements.



**National Endowment for the Arts**  
**Statement of Net Cost**  
**For the period ended September 30, 2004 and 2003**  
(In Dollars)

	2004	2003
<b>Program Costs:</b>		
<b>Artistic Creativity &amp; Preservation:</b>		
Grants to the Public	\$ 27,440,794	\$ 38,795,213
Intragovernmental Revenue	(1,362,000)	(1,842,713)
Net AC&P Costs	<u>26,078,794</u>	<u>36,952,500</u>
<b>Learning in the Arts:</b>		
Grants to the Public	9,514,379	8,891,632
Intragovernmental Revenue	(300,000)	(250,000)
Net Learning in the Arts Costs	<u>9,214,379</u>	<u>8,641,632</u>
<b>Access to the Arts:</b>		
Grants to the Public	16,505,038	20,176,797
Intragovernmental Revenue	(1,203,000)	(225,874)
Net Access to the Arts Costs	<u>15,302,038</u>	<u>19,950,923</u>
<b>Partnerships for the Arts:</b>		
Intragovernmental Gross Costs	1,133,948	289,760
Less. Intragovernmental Earned Revenue	-	(271,500)
Net Intragovernmental Partnerships for the Arts Costs	<u>1,133,948</u>	<u>18,260</u>
Grants Provided to the Public	33,945,817	51,111,709
Net Partnerships for the Arts Costs	<u>35,079,765</u>	<u>51,129,969</u>
<b>Total Program Costs</b>	85,674,976	116,675,024
Costs Not Assigned to Programs	30,315,484	21,385,682
Less: Earned Revenues Not Attributed to Programs	(2,226,983)	(1,582,915)
<b>Net Cost of Operations</b>	<u><u>\$ 113,763,477</u></u>	<u><u>\$ 136,477,791</u></u>

The accompanying notes are an integral part of these statements.

**National Endowment for the Arts**  
**Statement of Changes in Net Position**  
**For the period ended September 30, 2004 and 2003**

(In Dollars)

	<b>2004 Cumulative Results of Operations</b>	<b>2004 Unexpended Appropriations</b>	<b>2003 Cumulative Results of Operations</b>	<b>2003 Unexpended Appropriations</b>
Beginning Balances as 10/01/03	\$ 6,141,562	\$ 85,538,445	\$ 2,519,807	\$ 108,976,175
Adjustment to correct prior period	2,855			
Budgetary Financing Sources:				
Appropriations received		122,480,000		116,489,000
Authority Unavailable Pursuant to Public Law		(1,509,185)		(757,179)
Appropriations Used	117,250,091	(117,250,091)	139,169,551	(139,169,551)
Other Financing Sources:				
Imputed Financing From Costs Absorbed by Others	975,187		929,995	
Total Financing Sources	<u>118,225,278</u>		<u>140,099,546</u>	
Net Cost of Operations	(113,763,477)		(136,477,791)	
Ending Balances as 9/30/04	<u>\$ 10,606,218</u>	<u>\$ 89,259,169</u>	<u>\$ 6,141,562</u>	<u>\$ 85,538,445</u>

The accompanying notes are an integral part of these statements.

**National Endowment for the Arts**  
**Statement of Budgetary Resources**  
**For the Period Ended September 30, 2004 and 2003**  
(In Dollars)

	<b>2004</b>	<b>2003</b>
<b>BUDGETARY RESOURCES</b>		
Budget Authority:		
Appropriation	\$ 124,602,860	\$ 117,907,863
Unobligated Balance:		
Balance Beginning of Period	4,195,330	3,454,773
Spending Authority from Offsetting Collections:		
Collections Earned	3,053,199	2,669,080
Subtotal	<u>131,851,389</u>	<u>124,031,716</u>
Recoveries of Prior Year Obligations:		
Actual Recoveries	1,317,338	1,203,502
Cancellations of Expired and No-Year Accounts	-	
Permanently Not Available:		
Pursuant to Public Law	(1,509,185)	(757,179)
<b>TOTAL BUDGETARY RESOURCES</b>	<u><u>\$ 131,659,542</u></u>	<u><u>\$ 124,478,039</u></u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct	\$ 122,667,793	\$ 117,648,561
Reimbursable	3,225,554	2,634,148
Subtotal	<u>125,893,347</u>	<u>120,282,709</u>
Unobligated Balance:		
Apportioned Currently Available	5,766,195	4,195,330
Unobligated Balance Not Available:		
Other		
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<u><u>\$ 131,659,542</u></u>	<u><u>\$ 124,478,039</u></u>
<b>RELATION OF OBLIGATIONS TO OUTLAYS</b>		
Obligated Balance Beginning of Period	\$ 113,680,756	\$ 109,296,980
Obligated Balance Net, End of Period:		
Undelivered Orders	94,954,977	88,157,793
Accounts Payable	19,903,957	25,522,963
Outlays:		
Disbursements	125,437,789	116,199,355
Collections	(3,053,199)	(2,669,080)
Subtotal	<u>122,384,590</u>	<u>113,530,275</u>
Less: Offsetting receipts	(2,039,958)	(1,503,923)
<b>Net Outlays</b>	<u><u>\$ 120,344,632</u></u>	<u><u>\$ 112,026,352</u></u>

The accompanying notes are an integral part of these statements.

**National Endowment for the Arts**  
**Statement of Financing**  
**For the Period Ended September 30, 2004 and 2003**  
(In Dollars)

	<b>2004</b>	<b>2003</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 125,893,347	\$ 120,282,709
Less: Spending Authority from offsetting collections and recoveries	(4,370,537)	(3,872,582)
Obligations net of offsetting collections and recoveries	121,522,810	116,410,127
Less: Offsetting receipts	(2,039,958)	(1,503,923)
Net Obligations	119,482,852	114,906,204
Other Resources		
Imputed financing from costs absorbed by others	975,187	929,995
Net Other Resources Used to Finance Activities		
Total Resources Used to Finance Activities	120,458,039	115,836,199
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but not received	(6,768,730)	20,759,820
Resources that finance the acquisition of assets		(132,845)
Other Resources or adjustments to net obligated resources that do not affect net cost of operations		(198,552)
Total Resources used to finance items not part of the Net Cost of Operations	(6,768,730)	20,428,423
Total Resources Used to finance the Net Cost of Operations	113,689,309	136,264,622
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	6,929	133,884
Total components of Net Cost of Operations that will require or generate resources in future periods	6,929	133,884
Components not Requiring or Generating Resources:		
Depreciation and Amortization	37,706	32,538
Losses on Disposal of Assets	66,611	47,178
Other	(37,078)	(431)
Total components of Net Cost of Operations that will not require or generate resources	67,239	79,285
Total components of net cost of operations that will not require or generate resources in the current period	74,168	213,169
<b>Net Cost of Operations</b>	<b>\$ 113,763,477</b>	<b>\$ 136,477,791</b>

The accompanying notes are an integral part of these statements.

National Endowment for the Arts  
Notes to the Financial Statements  
As of September 30, 2004 and 2003  
(In Dollars)

The following Notes include the disclosure requirements contained in the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and the "Statements of Federal Financial Accounting Standards" (SFFAS).

**Note 1. Significant Accounting Policies:**

**A. Reporting Entity**

The National Endowment for the Arts (NEA) is an independent Federal agency with the mission to enrich our Nation and its diverse cultural heritage by supporting works of artistic excellence, advancing learning in the arts, and strengthening the arts in communities throughout the country. NEA was established by the National Foundation on the Arts and the Humanities Act of 1965.

**B. Basis of Presentation**

These financial statements are provided to meet the requirements of the Accountability of Tax Dollars Act of 2002. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operations of NEA. These statements were prepared from the books and records of NEA in conformity with accounting principles generally accepted in the United States, and OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements".

**C. Basis of Accounting**

Transactions are recorded on a budgetary basis, and with large categories such as payroll and grant liabilities, recorded on an accrual basis. Under the accrual method, expenses are recognized when liabilities are incurred and revenues are recognized when earned, without regard to payment or receipt of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

National Endowment for the Arts  
Notes to the Financial Statements  
As of September 30, 2004 and 2003  
(In Dollars)

**Note 1. Significant Accounting Policies**

**C. Basis of Accounting (Continued):**

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountant's Council designated FASAB as the accounting standards authority for Federal government entities.

**D. Revenues and Other Financing Sources**

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

An Arts and Artifacts Indemnity Fund was established by Congress to address small insurance issues that may arise in the course of national exhibits.

NEA was granted the authority to receive donations and to invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding and the NEA observes the same guidelines for the appropriate use of donated funds as for appropriated funds. This authority allows the Chairman to incur representation and reception expenses.

**E. Fund Balance with Treasury**

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. See Note 2 for additional information.

National Endowment for the Arts  
Notes to the Financial Statements  
As of September 30, 2004 and 2003  
(In Dollars)

**Note 1. Significant Accounting Policies (Continued):**

**F. Advances and Prepayments**

NEA records payments for grants where the grantee has not yet incurred the expense (but expects to within 30 days), as advances, and reduces the advances by charges to expense in the next month.

**G. General Property, Plant and Equipment, Net**

In FY 04, the NEA policy has been changed to depreciate property, plant and equipment over the estimated useful life of the asset. NEA's capitalization threshold was raised to \$50,000 for individual purchases and \$50,000 for bulk purchases with a minimum \$10,000 per item. Service lives are as shown below:

<u>Description</u>	<u>Life</u>
Leasehold Improvements	Term of Lease
Capital Leases	Term of Lease
Office Furniture	7 Years
Computer Equipment & Software	3 Years
Office Equipment	5 Years

**H. Liabilities**

Liabilities represent the amount of monies or other resources likely to be paid by NEA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation (or, in some cases, donated funds). Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, liabilities can be abrogated by the Government, acting in its sovereign capacity.

**I. Accounts Payable**

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

National Endowment for the Arts  
Notes to the Financial Statements  
As of September 30, 2004 and 2003  
(In Dollars)

**Note 1. Significant Accounting Policies (Continued):**

**J. Annual, Sick and Other Leave**

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

**K. Retirement Plans**

NEA employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 participate in CSRS unless they elected to join FERS and Social Security.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and NEA makes a mandatory one percent contribution to this account. In addition, NEA makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, NEA remits the employer's share of the required contribution.

NEA does not report on its financial statements information pertaining to the retirement plans covering its employees except for imputed costs related to retirement (See L. below). Reporting amounts such as plan assets and accumulated plan benefits, if any, is the responsibility of the Office of Personnel Management.



National Endowment for the Arts  
Notes to the Financial Statements  
As of September 30, 2004 and 2003  
(In Dollars)

**Note 1. Significant Accounting Policies (Continued):**

**L. Imputed Benefit Costs**

NEA reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Management and Budget (OMB) supplies the cost factors that are applied to the Agency's records.

**M. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

**N. Contingencies**

There are no commitments or contingencies that require disclosure.

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
as of September 30, 2004 and 2003  
(In Dollars)

**NOTE 2: Fund Balances With Treasury**

	<b>2004</b>	<b>2003</b>
Fund Balances:		
Trust Funds	\$ 2,495,896	\$ 987,866
Appropriated Funds	117,225,019	116,039,302
Custodial Funds (Nonentity)	518,202	37,500
	<u>\$ 120,239,117</u>	<u>\$ 117,064,668</u>
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	\$ 4,846,687	\$ 3,346,413
Unavailable	533,496	37,500
Obligated Balance not yet Disbursed	114,858,934	113,680,755
	<u>\$ 120,239,117</u>	<u>\$ 117,064,668</u>

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
as of September 30, 2004 and 2003  
(In Dollars)

**NOTE 3: Investments**

<b>2004</b>	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 838,779	Effective Interest	\$ 5,964	\$ 844,743	844,743
Accrued Interest on Public Debt Bills	1,257				1,257
Accrued Interest on Donated Bonds	45,811				45,811
Value of Donated Savings Bonds	19,625				19,625
Total	<u>\$ 905,472</u>				<u>\$ 911,436</u>

<b>2003</b>	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 848,917	Effective Interest	\$ 4,083	\$ 853,000	853,000
Accrued Interest on Public Debt Bills	2,431				2,431
Accrued Interest on Donated Bonds	60,595				60,595
Value of Donated Savings Bonds	22,306				22,306
Total	<u>\$ 934,249</u>				<u>\$ 938,332</u>

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
as of September 30, 2004 and 2003  
(In Dollars)

**NOTE 4: Accounts Receivable**

	<b>2004</b>	<b>2003</b>
Gross Receivables:		
Custodial Receivable (Nonentity)	\$ 190,597	\$ 112,500
Audit Resolution Receivable	14,267	
Receivable Due from Payroll Debt	23,240	431
	<hr/> \$ 228,104	<hr/> \$ 112,931
Allowance for Uncollectibles:	0	0
Net Receivables	<hr/> \$ 228,104	<hr/> \$112,931

Allowance for uncollectible amounts are not applicable to the current receivables.

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
as of September 30, 2004 and 2003  
(In Dollars)

**NOTE 5: General Property, Plant, And Equipment**

Class of Property	<b>2004</b>			<b>2003</b>		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Furniture & Equipment	\$ 132,845	\$ 46,496	\$ 86,349	\$ 239,253	\$ 74,205	\$ 165,048
ADP Hardware				33,148	13,128	20,020
Internal Use Software				21,074	16,649	4,425
Total	<u>\$ 132,845</u>	<u>\$ 46,496</u>	<u>\$ 86,349</u>	<u>\$ 293,475</u>	<u>\$ 103,982</u>	<u>\$ 189,493</u>
Capitalization Threshold:	<b>2004</b>			<b>2003</b>		
	\$50,000 individual purchase			\$5,000 individual purchase		
	\$50,000 aggregate purchases where individual items each exceed \$10,000					
Useful Life:				All assets 10 years		
	Computer equipment = 3yrs					
	Computer software = 3yrs					
	Office equipment = 5yrs					
	Furniture = 7yrs					
	Leasehold improvements = lease term					
	Straight-line method used to depreciate cost of PPL over its useful life.			Straight-line method over useful life		

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
as of September 30, 2004 and 2003  
(In Dollars)

**NOTE 6: Liabilities**

	<b>2004</b>			<b>2003</b>		
	Non-Current	Current	Total	Non-Current	Current	Total
Accrued Funded Payroll and Leave	\$ -	\$ 430,989	\$ 430,989	\$ -	\$ 319,340	\$ 319,340
Employee Contributions and Payroll						
Taxes Payable	-	58,272	58,272	-	40,746	40,746
Accrued Unfunded Leave	-	1,062,199	1,062,199	-	1,058,125	1,058,125
Accrued Liabilities Due - Government	-	778,529	778,529	-	169,039	169,039
Accrued Liabilities Due - Non-Government	-	19,344,966	19,344,966	-	25,143,838	25,143,838
	<u>\$ -</u>	<u>\$ 21,674,955</u>	<u>\$ 21,674,955</u>	<u>\$ -</u>	<u>\$ 26,731,088</u>	<u>\$ 26,731,088</u>

**NOTE 7: Operating Rental Lease Agreement**

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Total Annual Rental	\$992,100	\$2,219,317	\$2,217,653	\$2,232,267	\$2,247,320	\$2,262,825	\$188,677

**Brief Description of Occupancy Agreement:**

The current occupancy agreement includes rental of office space and one surface parking space for a period of 66 months commencing on or about May 1, 2003 thru October 31, 2008. The agreement can be terminated upon four months' notice. The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay rent in future years is subject to the availability of funds.

BLANK PAGE

***Management's Comments  
on Auditor's Report***



BLANK PAGE



NATIONAL ENDOWMENT FOR THE ARTS

The Nancy Hanks Center  
1100 Pennsylvania Avenue NW  
Washington DC 20506-0001  
202/682-5400

*Office of the Chairman*

November 9, 2004

Mr. Daniel L. Shaw  
Inspector General  
National Endowment for the Arts  
1100 Pennsylvania Ave. NW #601  
Washington, DC 20506

Dear Mr. Shaw:

Thank you for managing the audit of the Arts Endowment's fiscal year 2004 financial statements, and related review of our internal controls and compliance with laws and regulations, as required by the Accountability of Tax Dollars Act of 2002. This was the Arts Endowment's second full financial audit, and we are proud to have once again received a "clean" opinion.

I'm pleased to point out that the material weakness the auditor identified – our reliance on an outdated financial management information system – is well on its way to being corrected. This past year we entered into a cross-servicing agreement with the Federal Aviation Administration to obtain financial management system services. In less than one year we have planned for, converted to, and begun operating under this new system. We fully expect all fiscal year 2005 financial transactions to be accounted for in the new system. I'm also pleased to report that we took immediate corrective action on the one finding noted in the "Internal Control Over Financial Reporting" section of the auditor's report even before the audit was complete.

We appreciate the time and effort committed by you, your colleagues, and the auditors from the independent accounting firm of Leon Snead & Company, P.C., who worked on this audit. We take our financial accounting and reporting responsibilities seriously, and welcome your oversight and insight to strengthen our financial systems.

Sincerely,

Dana Gioia  
Chairman



***Inspector General's Summary  
of Serious Management Challenges***

BLANK PAGE



## MEMORANDUM

DATE: September 22, 2004

TO: Dana Gioia, Chairman

FROM: Daniel L. Shaw, Inspector General

A handwritten signature in cursive script, reading "Daniel L. Shaw".

SUBJECT: Top Management Challenges for the National Endowment for the Arts

The National Endowment for the Arts is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget in November 2004. The PAR contains a number of sections that address issues ranging from performance to financial management. The financial management section requires that the Inspector General provide the Agency head with a summary of the most serious management and performance challenges facing the Agency.

After careful analysis, it is our assessment that the areas of Financial Management, Information Technology, and Grantee Accountability have the potential to represent serious management and performance challenges for the National Endowment for the Arts (NEA). The rationale for our perspective on each is outlined below.

The Office of Inspector General (OIG) has enjoyed strong support from Agency management and looks forward to working with you as we address matters of mutual concern. We also welcome any comments or reactions to our assessment.

**Financial Management.** The NEA's current financial management system (FMIS) is outdated and does not fully comply with all of the requirements of the Joint Financial Management Improvement Program (JFMIP). The NEA recognizes this problem and has, during FY 2004, entered into an agreement with the Enterprise Services Center of the Department of Transportation, Federal Aviation Administration, to obtain "...a separate, complete and identifiably distinct set of books on...Oracle Federal Financials system, initially Version 11i.5.9e or later, which is fully JFMIP-compliant." The system, also known as Delphi, is scheduled to start production for NEA in October 2004. Notwithstanding this deficiency, the NEA received in 2003 an unqualified opinion on its first financial statements audit, although the auditors did identify the Agency's current FMIS as a material weakness and strongly encouraged the Agency to take immediate steps to address it. The achievement of that unqualified opinion resulted, in part, from the ability of the Agency's Finance Office staff to develop reliable workaround solutions to current inherent system limitations – certainly not a long-term solution to

financial management. We acknowledge NEA's efforts to correct the material weakness in its financial management system and reiterate our encouragement of their existing plans to proceed with converting their legacy system as quickly as a controlled, well planned, process allows.

**Information Technology.** The rapid changes in information technology and Federal requirements provide an ongoing challenge to all Federal agencies. The *E-Government Act of 2002* addressed various aspects of Federal management and the promotion of electronic government services. It also required improvements in the methods by which government information, including information on the Internet, is organized, preserved, and made accessible to the public.

The move to e-grants represents an important challenge for the NEA. The NEA has been an active participant in Grants.gov since its inception and employs a team effort to work with this initiative. Among the government-wide challenges identified is streamlining the grants application process. Currently, the process that applicants (all – not just NEA) are required to go through to register for Grants.gov is cumbersome because the process is multi-step, multiple-provider, and time-delayed; however, this process is expected to improve over time.

Another government-wide e-grant challenge for the NEA concerns the number of months that it takes to complete forms development once data analysis and forms are submitted to Grants.gov. While the current process has taken four to five months, Grants.gov expects that time to average three months in the future due to increased experience with this process. The challenge for the NEA is to ensure appropriate planning so that applicants have adequate time following forms development to prepare and submit their applications to the NEA.

New government-wide requirements for information security in recent years also provide challenges to the NEA. The *Federal Information Security Management Act of 2002* requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. As noted in the OIG's required evaluations of information security during the past few years, the NEA has made significant progress to comply with these requirements despite limited resources to devote to this effort. To further improve the Agency's information technology operations and comply with government-wide requirements, the Agency's Information and Technology Management Office was reorganized – resulting in significant improvements to the office's skill levels and capabilities. Full implementation of these changes, however, was not possible due to budget shortfalls – thus requiring the Agency to reassess IT security assignments. Currently, an Information Technology Specialist has been assigned collateral security duties as the Information Systems Security Officer, responsible for agency-wide IT security.

We acknowledge and encourage the NEA to continue its commitment to the e-grants initiative.

**Grantee Accountability.** As the nation's largest funding provider for the arts, NEA awards approximately 2,200 grants annually. The organizations supported vary considerably in size and in experience in financial management, particularly as it relates to Federal financial management requirements. The challenge facing Federal grant-making agencies is to ensure that recipients adhere to and comply with the applicable fiscal requirements.

To assist grantees in these efforts, the NEA provides each grantee with either a copy (or website reference) of the *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)* and the *OIG Financial Management Guide for Non-Profit Organizations (Financial Management Guide)*. The *General Terms* incorporate Office of Management and Budget requirements, Federal laws, rules, regulations, and Executive Orders that apply to grants and cooperative agreements. The *Financial Management Guide* provides practical information on what is expected from grantee organizations in terms of fiscal responsibility. The NEA has also recently enhanced its communication with grantees by implementing a new, Web-based program that provides all grantees with general information on the status of their grant – including amount awarded, grant period, amount disbursed and the status of required final report submission. In addition, the NEA provides considerable technical assistance and has (through its Grants and Contracts Office) recently established a *Grantee Technical Assistance Program* directed at grantees identified during the grant process in greatest need of such help. This program was initiated in 2003 and will be expanded in 2004.

There are, however, a number of organizations that have not complied with all applicable federal grant requirements. These organizations are often identified by the Agency's Grants and Contracts Office and referred to the OIG for audit. With these organizations the OIG generally has three findings: failure to comply with the requirement that costs be accounted for separately by grant award, that requested funds must be expended within 30 days after receipt, and that actual costs incurred be reported on the final Financial Status Report. Occasionally, the OIG also finds that some grantees are not maintaining personnel activity (time sheets) reports prorating the actual time charged to NEA grants.

We acknowledge and encourage the NEA's efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Implementation of Web-based and technical assistance programs, we believe, will improve the likelihood of grantee compliance, irrespective of past experience in managing Federal awards.





***Chairman's Response to Inspector General Memorandum  
Concerning Top Management Challenges***

BLANK PAGE



NATIONAL ENDOWMENT FOR THE ARTS


The Nancy Hanks Center  
1100 Pennsylvania Avenue NW  
Washington DC 20506-0001  
202/682-5400

*Office of the Chairman*

## MEMORANDUM

DATE: September 29, 2004

TO: Daniel L. Shaw, Inspector General

FROM: Dana Gioia, Chairman 

SUBJ: Response to OIG Memorandum Concerning Top Management Challenges

I share your perspective that the areas of Financial Management, Information Technology, and Grantee Accountability have the potential to present serious management and performance challenges for the Agency. I am confident that the steps we have taken and continue to take, which you acknowledge in your memorandum, will ensure that these areas continue to be assets, positively reflecting on the management and accomplishments of the National Endowment for the Arts. I do note that in the area of grantee accountability, it is my understanding that the problems you outline have largely been limited to a small number of grantees specifically identified by Agency staff as experiencing organizational, managerial or financial difficulties in the administration of their Federal awards. Finally, I wholeheartedly agree that the Agency and the OIG have worked well together and enjoy a constructive and positive working relationship, and I look forward to working with you on these and related matters.